NOVA SCOTIA
POWER
An Emera Company

November 22, 2010

Ms. Nancy McNeil
Regulatory Affairs Officer/Clerk
Nova Scotia Utility and Review Board
3rd Floor, 1601 Lower Water Street
P.O. Box 1692, Unit "M"
Halifax, NS B3J 3S3

Re: CI 33525 – Canaan Road 43V to Tremont 51V Line - Responses to Information Requests (IRs) P-128.10

Dear Ms. McNeil:

Enclosed are the IR responses pertaining to the capital item referenced above. These IRs were received on November 8, 2010.

The contract information provided in IR-1 'and the Power Line Technician Service Agreement provided in IR-1 Attachment 1 is confidential. NSPI strives to keep the suppliers' pricing confidential from their other customers or potential competitors. This prevents competitors from using their information to gain a competitive advantage. This is equally true for NSPI, which desires to protect its ability to acquire capital services and equipment on the most competitive terms. Those "best" prices may not be available if there is a risk that they will be disclosed to the customers or competitors of the supplier.

Since NSPI customer rates are cost-based, the maintenance of confidentiality for this item is to the direct benefit of customers.

NSPI discloses this contract to the Board and to Intervenors who have no conflicting interest, in confidence, thereby ensuring that an appropriate prudence review can occur.

The PowerPoint presentation which justifies NSPI's basis for awarding this work is confidential. Reports that relate to procurement strategies or the evaluation of business options are inherently confidential. This information provides details on how NSPI develops their work plan, and the structure of requirements to be met. Public disclosure of this information would allow suppliers to understand the structuring of risk mitigation and insight into these strategies, in turn decreasing the level of competition. This would be advantageous to suppliers bidding for NSPI contracts, who could understand what factors could influence NSPI procurement and thereby tailor bids in a manner that could increase costs to NSPI and its customers. The content of this report could disclose NSPI options for these services, thus allowing suppliers to bid up to the point of indifference to

NSPI, thereby increasing costs for customers compared to this information remaining confidential.

Regards,

Lee Thomson-Lutz, MBA, CMA
Manager, Capital

Encl.

REDACTED

Request IR-1:

Reference estimate for Contracts.

(a) Please provide details on the derivation of the capital cost estimate for Contracts. Include in your response a breakdown of the work (and cost) being done by NSPI and by EUS.

(b) Please provide support for the assumed hourly rate. If any part of the rate derives from or depends on the Power Line Technician Service Agreement with EUS, provide a copy of that agreement.

Response IR-1:

(a) The capital cost estimate for contracts includes the following:

Emera Utility Services

Line Construction $2,664,000

External Contractors

[redacted] - Right of Way Clearing (47km) [redacted]

[redacted] - Line and Route Plan and Profile Surveys [redacted]

[redacted] - Environmental Inspection and Data Gathering Services [redacted]

None of the work included in the contract cost estimate will be performed by NSPI.

(b) The hourly rate is based on the hourly rate provided under the existing contract with EUS. Please refer to Confidential Attachment 1 for a copy of the current Power Line Technician Service Agreement. This information is provided in pages 10 to 13.

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Request IR-2:

Reference the Capital Approval Sheet, why do the project this way.

(a) Please provide a copy of NSPI's "workforce planning model", including a description of how it optimizes the allocation and execution of PLT resources among work requirements.

(b) Please explain how this project meets the Board's requirements for affiliate transactions.

Response IR-2:

(a-b) Please refer to Confidential Attachment 1 for a copy of a presentation which describes NSPI's Workforce Planning Model methodology. The response provided for ACE 2010 IR-T11(d) describes how NSPI optimizes the allocation and execution of PLT resources among work requirements. A copy of this response is provided in Attachment 2.

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Transmission Responses

Request IR-T11:

With respect to page 201, CI# 34622 - Upgrade L8002,

a) This project is a continuation of the work started in the 2009 ACE Plan under CI# 33542. Please provide an update on the project comparing the planned work with the actual work encountered and provide a comparison of the budget vs actual expenditures.

b) Is the total amount budgeted, $1,658,189, sufficient to complete the required work to upgrade the line?

c) The expenditure proposed for 2010 is $1,201,706 (72% of budget) and will not complete the required work. Why is this project not being completed in 2010 considering the remaining value of the work is equivalent to the expenditure made in 2009 which was budgeted at $1,601,290?

d) In the Board Order issued on August 20,2009 approving work order CI# 33542 stated:

> **... NSPI is directed to include clear documentation which sets out the manner in which compliance with the Code, including Section 2.1 (a) of same, has been achieved on each of the Work Order applications submitted for approval on and after June 1, 2009.**

For this particular work order, CI# 34622, please provide a clear explanation of the steps being taken to comply with the directive.

Response IR-T11:

a) The actual work encountered in 2009 was as previously forecasted. The ACE amount for this project was $1.6 million and the actual amount was $1.2 million.

b-c) The total amount budgeted is sufficient to complete the project. This project is not being completed in 2010 because of transmission line outage scheduling.

d) The Board's letter dated August 20, 2009, in which the Board approved Capital Item 33542-Upgrade L-8002, contained the following directive:

NSPI is directed to include clear documentation which sets out the manner in which compliance with the Code, including Section 2.1 (a) of same, has been achieved on each of the Work Order applications submitted for approval on and after June 1, 2009.

Section 2.1(a) of the Code of Conduct is provided below:

> 2.1 NSPI will precede any transaction by which it acquires from or provides to an affiliate any goods, services, leases, asset transfers, or other exchanges of value, with a sound, objective, and transparent process and reasonable documentation;
>
> (a) The process and documentation shall identify and then compare transacting with an affiliate to: (i) provisioning through other, reasonably available commercial alternatives, (ii) self-provisioning by NSPI, (iii) joint NSPl/third-party provisioning, (iv) joint NSPl/affiliate provisioning, and (v) such other arrangements as may be reasonably available under the applicable circumstances at the time of the decision.

In previous correspondence with the Board NSPI has provided information regarding its contract with Emera Utility Services (EUS) for the supply of contractor linework services. The parties operate according to the terms of a three-year contract which was awarded to EUS following a competitive solicitation process conducted by NSPI in 2007.

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Response IR-T11: (cont'd)

The Current PLT Contract

In the Board's June 2008 Decision in respect of the review of affiliate transactions, NSPI was directed not to make any modifications or extensions to existing contractual arrangements in respect of PLT services. The Board anticipated that concerns about PLT contract services would be addressed by the revisions to the Code of Conduct, which have subsequently become effective on June 1, 2009.

The terms of the contract provide:

- The contract extends for the period 2008 to 2010.

- EUS to provide Standard Work Hours (SWH) of distribution and transmission work per year to NSPI.

- Rates vary according to work volumes and whether or not the work is completed under energized conditions.

- Work includes scoping, planning and scheduling and maintenance and construction activities.

NSPI has not made any changes to its master agreement with EUS, nor has that master agreement been extended. It will expire on December 31, 2010. At that time, if a new master agreement is executed with an affiliate, the new terms of the Code of Conduct will apply to that contractual relationship.

The Code provisions regarding self-provisioning must be interpreted in the current context. The Board changed the Code of Conduct after the PLT contract was executed (following a competitive solicitation) and the Board had directed NSPI not to change existing contracts.

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Response IR-T11: (cont'd)

The purpose PLT contract explicitly recognizes that the Company's internal workforce is already fully deployed throughout the year, and thus not a viable alternative to using a contractor for most jobs. Project-by-project self-provisioning analyses would become a question of whether to do the required work. NSPI does not consider this a viable or desirable option for customers.

A more informative approach to self-provisioning analysis would be one which focused on the decision to assign work to the affiliate, within the context of the existing agreement, to ensure the most efficient management of project completion by utilizing both workforces. This would be consistent with NSPI's contractor management model which takes the following into consideration:

- The nature of the work to be undertaken (e.g. transmission versus distribution, live line versus deadline, customer requested versus new construction);

- The availability of NSPI's PLT workforce;

- The scope of the project (i.e. Is the project better matched with NSPI crew availability/size or a contractor crew);

- Project location, duration, resource requirements.

This is the approach to self-provisioning analysis for linework that NSPI intends to employ on future capital applications.

Reasons for engaging contractors versus undertaking work with the Company's workforce include the following:

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Response IR-T11: (cont'd)

- The work requirement is intermittent. The contractor is able to sustain its workforce and the skills of its employees by doing similar work for other parties. The intermittent nature of the work would not warrant NSPI increasing its full-time workforce to perform the work.

- Contractor costs are lower than the cost of NSPI undertaking the work directly.

- Work location and/or content vary significantly over time. The flexibility provided by the contractor cannot be economically achieved by NSPI. Moreover aspects of the work may not require the full skill set held by NSPI employees.

- The work is highly specialized. Some work requires a unique skill-set not possessed by NSPI personnel.

The primary functions for this group of employees are:

- Distribution System repair, maintenance and construction

- Transmission System repair, maintenance and construction

- Customer outage restoration

- Customer connection/disconnection

The level of variability supports NSPI's engagement of a contractor workforce. The contractor allows NSPI to meet its customers' needs during peak operating and capital work volumes without making a long-term commitment to a significantly increased internal workforce where this requirement may not be sustained in the long-term.

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Response IR-T11: (cont'd)

The contractor workforce provides a high level of flexibility to deploy PLT resources across the Province and across functions that is difficult to achieve with an internal workforce. As well, the contractor engagement allows NSPI to manage a larger work load, while ensuring jobs undertaken by its own highly skilled PLT workforce are most appropriate for that group and for our customers.

The NSPI/EUS lineworker contract is in its final year. NSPI's competitive solicitation will test the PLT contractor market in the region. NSPI is committed to completing a comprehensive self-provisioning analysis, prior to entering into a new contract with an affiliate for PLT services if an affiliate is the competitive bidder. This work will review the Company's long-term line-work work plan, and its outlook for employee additions and retirements.

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Request IR-3:

(a) The Board understands the NSPI contract with EUS expires on Dec 31/10. Please explain why the contract for this project was awarded to EUS when it appears that most of the work will be done in 2011 after the EUS contract expires.

(b) If EUS does not win the contract to be NSPI's supplier for PLT services after Dec 31/10, please explain the impact on this project of transferring the contract to the new supplier.

Response IR-3:

(a-b) Please refer to UARB IR-2, Attachment 2 which provides the justification for awarding this work to EUS. The line construction portion of the project is expected to be complete by the end of 2010.